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Russia's Micex and RTS take first step in merger

By Charles Clover in Moscow

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Moscow's two largest exchanges on Wednesday agreed to merge as part of a tie-up aimed at turning the Russian capital into an international financial centre by 2020.

The deal is valued at \$5bn, with shareholders in Micex, the larger of the two exchanges, owning 75 per cent of the new combined group and RTS shareholders holding 25 per cent.

Russia's government has been pressuring the two rival exchanges to come to an agreement since last year in an attempt to develop the financial services industry in Russia.

Opponents of the merger have said it could stifle competition, however. "There are two views on this" said Roland Nash, chief investment strategist for Verno Capital, a Moscow-based hedge fund. "The first says that the more competition the better, while the second is that if you bring markets together you will get economies of scale. In the case of Russia there are still economies of scale to be gained."

Oleg Jelezko, vice-chairman of RTS said the new exchange would be a showcase for reform and regulation of the financial system.

Russian stocks trade at steep discounts in price/earnings terms to stocks in other emerging markets. Mr Jelezko said the new exchange could alleviate factors that keep share prices low, such as lack of open access to trading infrastructure and lack of a central depository. "There will simply be a bigger liquidity pool as a result of all these changes," he said.

Mr Nash said he hoped the new exchange would attract more Russian money, which he described as the "dark matter" missing from Moscow markets, currently dominated by foreign banks and funds.

Russia's anti-monopoly service is expected to approve the deal this summer, and the physical consolidation of the two exchanges, which are expected to operate under the Micex name, could take place by the end of the year. But the two sides have yet to decide on issues including the appointment of a chairman and a management team. Sixty five

per cent of the board will be chosen by Micex and the rest by RTS shareholders, according to Mr Jelezko.

While the RTS trades in dollars and the Micex in roubles, Mr Jelezko said the new combined exchange would trade in roubles though the settlement could be made in a variety of currencies. He also said that for the time being both exchanges' indices would continue to be published.

The government's holdings in Micex and the RTS mean the new exchange will still be state controlled – four state banks will account for just over 50 per cent of the shares in the group. These are the Central Bank, [Sberbank](#), [VTB](#) and Gazprom bank.